ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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HIGHLIGHTS OF BUSINESS IN AUGUST

Indicators of business activity continued to show uncertainty during August. New claims for unemployment compensation dropped for the seventh consecutive week to the lowest level since early January. The total number of workers claiming compensation remained about twice as high as it was a year ago, however. Exhaustion of benefit rights, improvement in some areas, and a continued slump in other areas were all concealed by the total.

Steel production limped along between 60 and 65 percent of capacity. Auto output was generally lower, with cutbacks for Chrysler and the independents more than offsetting small rises for Ford and General Motors. Part of the decline (especially the Chrysler drop in output) is attributable to model changeovers, which will affect production for the next several months. Electric power output reached a new high late in the month, exceeding year-ago levels by as much as 10 percent. Consumers were spending slightly more money in the department stores; some of the improvement resulted from seasonal school requirements.

Construction Record

In contrast to other segments of the economy, the construction industry continues to reach new highs. Building activity rose a seasonal 3 percent from July to a record $3.6 billion. Expanded residential, public utility, and highway building accounted for most of the increase.

Total construction for the first eight months of 1954, at $23.7 billion, also set a new record, 4 percent over the total for the corresponding period of 1953. A 30 percent advance in commercial building accounted for a large part of the over-all gain. Private expenditures were up 5 percent, in contrast to an increase of only 1 percent in public outlays.

Capital Outlays Off

Business firms are expected to spend $26.7 billion on new capital in 1954, 6 percent less than last year's record high. Lower expenditures are anticipated for most major industries. Railroad outlays are expected to be 35 percent below 1953 as a result of reduced earnings and virtual completion of large-scale modernization programs.

Manufacturing firms in the aggregate intend to spend 8 percent less this year than last. Most of this decline is attributed to reduced outlays by smaller firms, as planned expenditures by companies with assets over $100 million are about the same as last year. Outlays by primary metal concerns are expected to be off a third. Textile, chemical, and rubber companies and gas utilities plan to spend 15 percent less than in 1953. Petroleum concerns anticipate higher outlays this year, but the largest advance, 30 percent, was reported by the motor vehicle and other transportation group.

New Legislation

In the closing days of its second session, the 83rd Congress passed several bills of importance to business. The first general tax overhaul in many years cut individual and corporate taxes in a number of ways. Among the many changes made are provisions for different means of computing depreciation and for more liberal depletion and mine exploration deductions for businesses. For individuals, rules governing support of dependents are liberalized and deductions for medical expenses, child care, and charitable contributions are increased.

Approximately 10 million additional people, many of them self-employed, are brought into the social security system under a new law. Contributions to the social security fund will now be paid on $4,200 of income instead of $3,600, and benefits will be raised by at least $5 monthly. Retired workers may earn $1,200 instead of $900 without losing benefits. Congress also extended the unemployment insurance program to include companies which employ 4 or more workers for at least 20 weeks a year.

A housing bill provides for lower down payments and longer pay-off periods for houses mortgaged with government insurance. The foreign aid program was continued, and a total of $2.7 billion was appropriated for the current fiscal year.

Manufacturers' Sales Steady

Sales by manufacturers remained unchanged from June to July after seasonal adjustment. Shipments for most durable goods industries were stable; the chief exception was in transportation equipment where a decline in sales of motor vehicles was offset by increased sales of other categories. Most nondurable goods industries showed only small changes.

Inventories, after adjustments for seasonal factors, were off about $300 million, the same amount as in June. The decline was concentrated in durable goods, especially in transportation equipment. New orders were also down, about 2 percent, as increases in orders for electrical machinery and transportation equipment were more than offset by decreases in other major groups.

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A Slight Case of Mergers

The postwar years have been characterized by all sorts of outbreaks. In some years there have been outbreaks of polio; in other years, of war scares; and in still other years, of visions of flying saucers. The year 1954 appears to be characterized by a different sort of outbreak — an outbreak of business mergers. Not since the late twenties do so many mergers seem to have been reported as in the current year. Steel companies, auto manufacturers, chemical companies, even banks — everyone, it seems, is getting into the act.

Not surprisingly, these mergers have given rise to considerable anxiety regarding their possible effects on the economy. Are they likely to stimulate technological development or hinder it? How will they affect competition? What effect will they have on prices and costs? In short, are they good for the economy or bad? To answer such questions it is necessary to ask why these mergers are occurring at this particular time and to examine the conditions underlying them.

Why Now?

A period of trial tends to weed out the weak from the strong. The recent recession is no exception. Some firms weathered the recession and the accompanying intensification of competition in remarkably good shape. Productivity was increased, sales efficiency was raised, expenses were pared, and net income was maintained near previous highs. In many instances, thanks to the expiration of the excess profits tax, profits after taxes moved up sharply. The finances of these companies were strong to begin with, and in some cases were improved even further by these developments.

At the same time, these companies were faced with the prospects of intensified competition on the one hand, and of a growing long-range market for their products on the other hand. It was therefore only a natural reaction on their part to seek ways of using their finances to improve their competitive position, either by providing for greater capacity or by further improving operating efficiency.

Streamlining operations by construction of new facilities or by modernization of old facilities is the usual means of accomplishing such objectives. To do so in the recent past, however, often meant incurring very high costs, for despite the recession the construction boom kept rolling along. There was generally no surplus of construction labor or materials: one could not contract for a new plant at a discount as was possible in the case of automobiles and appliances.

At the same time, good facilities of other firms were often available at a price far below comparable current construction costs. In the main, these were facilities of smaller firms that had lost heavily during the recession. Weaknesses that were of little consequence when the only problem was one of production seriously impaired operations as business declined. Often poorly off financially, and facing the possibility of serious further losses, many such firms were more than willing to consider integration into a larger and much stronger firm.

This is not to say, however, that the only mergers to take place have been between the weak and the strong, or that improvement of competitive position was the only objective. Diversification is another major objective of mergers. Heavy dependence on one product is not the best way of weathering a recession. The greater vulnerability to heavy losses of firms whose income depends largely on one or two products becomes most apparent during a recession, as many have found out to their regret during the past year. Accordingly, many of these companies turned to means of diversifying operations, which is generally much more easily and economically accomplished by acquiring an established firm than by developing a new brand or product from the ground up. The recent acquisition of electronics and industrial machinery firms by Westinghouse Air Brake Company was largely motivated by such considerations.

Economic Effects

This review of the principal factors behind the mergers does not of itself answer the question of their social desirability, but it does provide useful insights. Clearly, any merger between two weak firms that helps keep them on their feet is in the best interests of the economy in the sense of promoting competition. By combining resources these firms are often able not only to reduce unit costs and keep their heads above water but even to compete more aggressively for markets than both had been able to do before.

This is especially true for industries that are dominated by a few large firms. The recent mergers in the auto industry exemplify such a situation. In the absence of such mergers, it is problematical whether some of these firms might have survived much longer. With the mergers, they are in a position to undertake projects which neither could undertake alone — such as a wider and more coordinated distributorship system, and more frequent model changeovers made possible by spreading retooling costs over a larger number of units.

But what about mergers between strong and weak firms or between two strong firms? Are they also generally in the best interests of the economy? The answer depends on the circumstances surrounding the merger. The nature of the product, the position of the firms in the industry, the type of merger and its purpose are among the factors which must be considered in such an evaluation. A merger of two firms that make a product very similar to other products may be of little consequence to the general welfare. Even if such a merger secured a monopoly position for these firms with respect to the product, there is little they could do to exploit that position, assuming they wanted to, because of the ever-present danger that consumers might shift their prefer-

(Continued on page 6)

TRACK-TYPE TRACTORS

This year marks the fiftieth anniversary of the first commercially successful track-type or crawler tractor. Wheel-type tractors, although suitable for many purposes, tend to sink into soft earth and their usefulness is seriously impaired in such areas. The need for a prime mover of large ground contact area and high maneuverability led Benjamin Holt, a West Coast manufacturer of steam-powered wheel-type tractors, to remove the wheels from one of his standard models and substitute a pair of rough wooden tracks. Holt's innovation was tested on November 24, 1904, and became the forerunner of almost 350,000 crawlers now in use in this country.

By 1906, steam had been replaced by gasoline as the source of power for Holt's tractors. Demand grew to such an extent that in 1909 Holt established a new manufacturing plant in Peoria, Illinois. After Holt's merger in 1925 with his chief competitor, the C. L. Best Gas Traction Company, his firm became the Caterpillar Tractor Company with headquarters in Peoria.

In 1928 Allis-Chalmers established their first line of crawler tractors when they purchased the Monarch Tractor Corporation of Springfield, Illinois. During the same year another Illinois firm, International Harvester, made its first crawler by modifying a wheeled tractor by the addition of a tracklaying device. Today, International Harvester ranks second only to Caterpillar in the number of track-type tractors manufactured.

Industry Shows Rapid Growth

Although the track-type tractor has been commercially produced for fifty years, the greatest growth in demand and production has taken place in the last thirty years. In the period of 1922 to 1952, annual production of crawler tractors jumped from a mere 4,187 units to 48,651, a twelvefold increase.

Two factors have been responsible for this amazing growth. The first is the growing agricultural demand for the track-type tractor and the second has been the new uses found for it in other industries.

When track-type tractors were first produced, their main use was in agriculture. In the early years, they could be employed economically only on the largest farms and on relatively flat terrain. Constant improvements have resulted in track-type tractors that can be used efficiently on much smaller farms and on hilly terrain.

The crawlers that were first used in other industries such as logging or mining were merely modified farm tractors. As time passed, more and more uses were found within these industries for the track-type tractor. In addition, the nation's growing population and the consequent demand for new homes, schools, and factories gave impetus to the industrial use of the tractor. Statistics for the post-World War II years show that well over half of the production of track-type tractors has been for nonagricultural industries. Some of the big producers now have separate divisions making farm and nonfarm tractors.

The export trade has been another important source of demand for track-type tractors, particularly since World War II. In 1952, for instance, almost 30 percent of domestic production was exported.

Illinois the Leading Producer

Illinois has proven to be an ideal location for the manufacture of this type of tractor. The State offers not only convenient sources of materials such as coal and steel, but is also centrally located with regard to both industrial and agricultural demand.

Today, three of the nation's five producers of track-type tractors are located in Illinois, and these three firms produce about 75 percent of the world's crawler tractors.

Caterpillar, the world's largest producer of track-type tractors, offers five sizes of Diesel crawlers and employs 26,000 people, 21,000 of whom work at the Peoria plant. International Harvester has over 15,000 workers producing crawler tractors. Two-thirds of these workers are in Illinois, with about 5,000 at the Melrose Park plant and another 5,000 at the Chicago plant. Allis-Chalmers has about 4,000 workers engaged in the production of track-type tractors, all of whom are located at the Springfield, Illinois, plant.

Postwar Expansion

The pent-up demand for tractors which was the result of World War II and postwar disturbances seems to be pretty well satisfied. Illinois manufacturers feel, however, that the natural growth of the economy and replacement demand will be enough to justify expansions of sizable proportions. Another important, but less certain, source of demand is the export market, where the industry feels that high levels of sales can be maintained if the necessary dollars can be acquired by overseas customers.

In line with this optimistic outlook, each of the Illinois firms manufacturing track-type tractors has sought to expand its facilities. International Harvester in recent years has attempted to get into the industrial earth-moving business with a full line of equipment. It purchased the Frank G. Hough Company of Libertyville, Illinois, and an arrangement was made with Bucyrus-Erie Company by which International Harvester will take over production, distribution, and servicing of Bucyrus-Erie industrial tractor equipment.

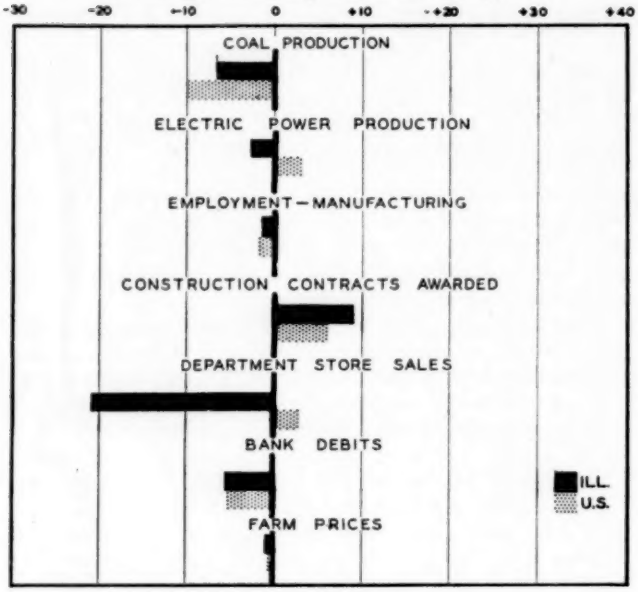
During the last three years, Allis-Chalmers has purchased the LaPlant-Choate Company and the Buda Engine Works of Harvey, Illinois. Acquisition of these plants will enable Allis-Chalmers to expand its product line and to manufacture its own Diesel engines. Caterpillar's expansion since World War II includes enlargement of its main plant at Peoria and construction of new plants at Peoria and at Decatur, Illinois, as well as at York, Pennsylvania.

In addition to this plant expansion, millions have been spent on research. The research has already resulted in tractors incomparably better than those produced a few years ago, and promises to lead to still better tractors and still more uses for the product.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes June, 1954, to July, 1954



ILLINOIS BUSINESS INDEXES

Item	July 1954 (1947-49 =100)	Percentage Change from June 1954	Percentage Change from July 1953
Electric power[1]	178.8	−2.6	+11.2
Coal production[2]	53.6	−6.6	−15.7
Employment—manufacturing[3]	100.3	−1.5	− 9.6
Payrolls—manufacturing	n.a.	....	....
Dept. store sales in Chicago[4]	104.0[a]	−1.9	− 1.0
Consumer prices in Chicago[5]	118.0	+0.6	+ 2.0
Construction contracts awarded[6]	239.7	+9.1	−17.6
Bank debits[7]	143.3	−5.3	− 1.8
Farm prices[8]	98.1	−0.8	− 8.4
Life insurance sales (ordinary)[9]	153.4	−6.2	− 0.9
Petroleum production[10]	104.7	+1.4	+15.0

[1] Federal Power Commission; [2] Illinois Department of Mines; [3] Illinois Department of Labor; [4] Federal Reserve Bank, 7th District; [5] U. S. Bureau of Labor Statistics; [6] F. W. Dodge Corporation; [7] Federal Reserve Board; [8] Illinois Crop Reports; [9] Life Insurance Agency Management Association; [10] Illinois Geological Survey.
[a] Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	July 1954	Percentage Change from June 1954	Percentage Change from July 1953
	Annual rate in billion $		
Personal income[1]	286.5[a]	0.0	− 0.6
Manufacturing[1]			
Sales	290.6[a, b]	− 0.2	− 8.2
Inventories	44.2[b]	− 0.7	− 4.9
New construction activity[1]			
Private residential	14.8	+ 4.6	+ 9.9
Private nonresidential	13.7	+ 4.3	+ 4.4
Total public	13.6	+ 5.0	+ 2.6
Foreign trade[1]			
Merchandise exports	17.7[c]	+ 5.4	+ 6.4
Merchandise imports	11.4[c]	+14.3	+ 1.5
Excess of exports	6.3[c]	− 7.6	+16.7
Consumer credit outstanding[2]			
Total credit	27.8[b]	+ 0.2	+ 0.9
Installment credit	21.2[b]	+ 0.6	+ 1.2
Business loans[2]	21.5[b]	− 1.6	− 4.9
Cash farm income[3]	27.6	+ 7.6	− 5.0
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	124[a]	0.0	− 9.5
Durable manufactures	136[a]	+ 0.7	−13.4
Nondurable manufactures	116[a]	0.0	− 4.1
Minerals	111[a]	− 1.8	− 7.5
Manufacturing employment[4]			
Production workers	100[a]	− 1.4	−12.0
Factory worker earnings[4]			
Average hours worked	99	− 0.5	− 2.2
Average hourly earnings	135	− 0.6	+ 1.7
Average weekly earnings	134	− 1.1	− 0.6
Construction contracts awarded[5]	240	+ 6.0	+ 2.4
Department store sales[2]	115[a]	+ 2.7	+ 1.8
Consumers' price index[4]	115	+ 0.1	+ 0.4
Wholesale prices[4]			
All commodities	110	+ 0.4	− 0.5
Farm products	96	+ 1.5	− 1.7
Foods	106	+ 1.3	+ 0.9
Other	114	+ 0.1	− 0.4
Farm prices[3]			
Received by farmers	92	− 0.4	− 5.0
Paid by farmers	112	− 0.7	+ 0.4
Parity ratio	88[d]	0.0	− 5.4

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.
[a] Seasonally adjusted. [b] As of end of month. [c] Data are for June, 1954; comparisons relate to May, 1954, and June, 1953.
[d] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1954					1953
	Aug. 28	Aug. 21	Aug. 14	Aug. 7	July 31	Aug. 29
Production:						
Bituminous coal (daily avg.)....thous. of short tons	1,235	1,257	1,293	1,233	1,250	1,623
Electric power by utilities....mil. of kw-hr.	9,227	9,207	8,996	9,059	9,139	8,540
Motor vehicles (Wards)....number in thous.	111.2	117.0	116.2	120.9	123.5	144.9
Petroleum (daily avg.)....thous. bbl.	6,048	6,062	6,062	6,057	6,158	6,532
Steel....1947-49 = 100	94.3	91.7	95.1	95.1	95.4	131.1
Freight carloadings....thous. of cars	677	679	685	668	684	818
Department store sales....1947-49 = 100	102	100	97	92	87	101
Commodity prices, wholesale:						
All commodities....1947-49 = 100	110.0	110.3	110.2	110.1	109.7	110.6
Other than farm products and foods..1947-49 = 100	114.4	114.3	114.3	114.4	114.2	114.9
22 commodities....1947-49 = 100	91.4	91.2	90.8	90.7	90.9	89.9
Finance:						
Business loans....mil. of dol.	20,773	20,759	20,829	20,770	21,524	22,891
Failures, industrial and commercial...number	184	246	233	207	195	182

Source: *Survey of Current Business, Weekly Supplements.*

RECENT ECONOMIC CHANGES

Installment Credit Up

Consumers, who in the aggregate seemed reluctant to extend their long-term indebtedness earlier this year, have stepped up their installment buying in recent months. Installment credit outstanding declined more than seasonally in the first quarter and moved up less than usual in April and May. The June advance was about par for the month. In July, however, installment credit increased by $124 million to $21.2 billion, as compared with a $50-$60 million increment that government economists consider normal for the month. Practically all of the advance reflected long-term contracts for purchases of automobiles.

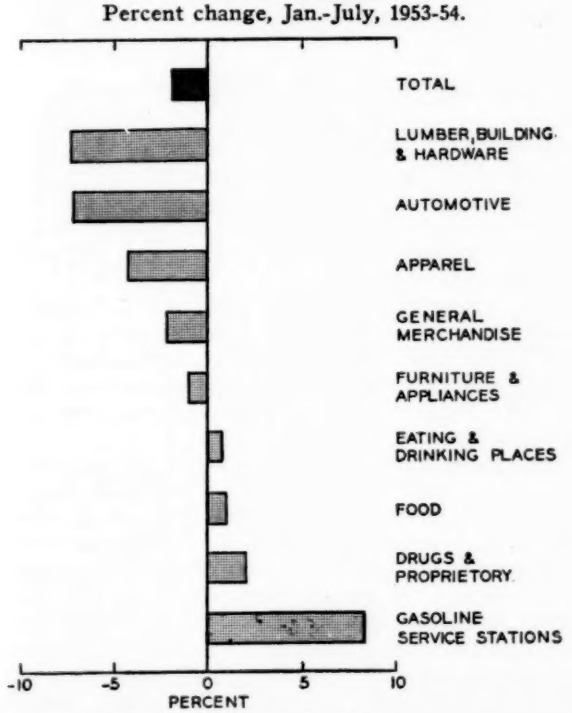
Total consumer credit in July increased less than installment credit, by only $44 million. Liquidation of non-installment indebtedness, largely composed of single payment loans and charge accounts, accounted for the smaller increase in the total. At $27.8 billion, total consumer credit was slightly above the same month a year ago, though a billion dollars below last December's peak.

Retail Sales Slightly Lower

Retail sales in July were moderately below this June, as well as July of last year, according to preliminary estimates. Substantial increases in sales of grocery stores, eating and drinking places, and gasoline service stations were offset by sharp declines in apparel and automotive sales and more moderate declines in sales by other major types of retail stores during the month.

Retail sales during the first seven months of this year were less than 2 percent below the corresponding period of 1953. As shown by the accompanying chart, a substantial gain from last year in gasoline service station sales was offset by lower lumber and building materials suppliers' and automobile and parts dealers' sales. However, sales of the majority of the various store groups were relatively unchanged from the first seven months of 1953.

RETAIL SALES
Percent change, Jan.-July, 1953-54.



Source: U. S. Department of Commerce.

Accompanying the somewhat lower level of retail sales this year has been a reduction in inventory holdings. The total book value of retailers' stocks amounted to $22.4 billion at the end of July, $200 million below the June total, after allowance for seasonal influences. This was $300 million below July of last year.

Gross National Product Stabilizes

Following three quarters of decline, the nation's output of goods and services increased slightly in the second quarter to $356 billion. This was $14 billion below the 1953 second quarter peak. The decline from last year was largely confined to reductions in Federal government expenditures and a reversal from substantial inventory accumulation in the second quarter of 1953 to liquidation in subsequent quarters.

The relative stability of total output between the first and second quarters of 1954 was due largely to the cancellation of opposing movements in major sectors of the economy rather than to inherent stability. Government purchases of goods and services declined $3.6 billion in the second quarter, mostly as a result of further reductions in national security outlays.

GROSS NATIONAL PRODUCT OR EXPENDITURE
(Seasonally adjusted, billions of dollars at annual rates)

	2nd Qtr. 1954	*1st Qtr. 1954*	*2nd Qtr. 1953*
Gross national product	356.0	355.8	369.9
Personal consumption	233.1	230.5	230.8
Durable goods	28.8	28.0	30.3
Nondurable goods	120.0	118.8	119.6
Services	84.3	83.6	80.9
Domestic investment	45.6	44.5	55.9
New construction	27.0	26.0	25.9
Producers' durable equipment	22.4	22.7	24.6
Change in business inventories	−3.8	−4.2	5.4
Nonfarm inventories only	−4.0	−4.2	6.2
Foreign investment	−1.0	−1.1	−3.3
Government purchases	78.3	81.9	86.6
INCOME AND SAVING			
National income	n.a.	298.9	308.2
Personal income	285.7	285.1	286.4
Disposable personal income	252.9	252.3	250.4
Personal saving	19.7	21.8	19.6

Offsetting this decline was a $2.6 billion advance in personal consumption expenditures and a $1.1 billion rise in private investment. The rise in private investment reflected continued boom-level construction activity. Residential building reached the highest rate since the postwar peak in the second half of 1950. Inventory liquidation slowed from an annual rate of $4.2 billion in the first quarter to $3.8 billion in the second. Outlays for producers' durable equipment were off somewhat as declines in expenditures by the manufacturing and transportation industries offset further increases in public utility and commercial firms' outlays.

Employment Rising

The number of jobholders increased in August for the seventh consecutive month. At 62.3 million employment was 128,000 higher than in July. Unemployment declined slightly to 3.2 million but still represented better than

twice the number of people looking for jobs in August of last year. Both the rise in employment and decline in unemployment were normal for this time of year, but the changes were considerably more moderate than August changes in other postwar years.

Partly because of the shift of many workers from farm to nonfarm jobs, agricultural employment was down by 558,000 from July and nonfarm employment rose by 687,000. Census data in thousands of workers are as follows:

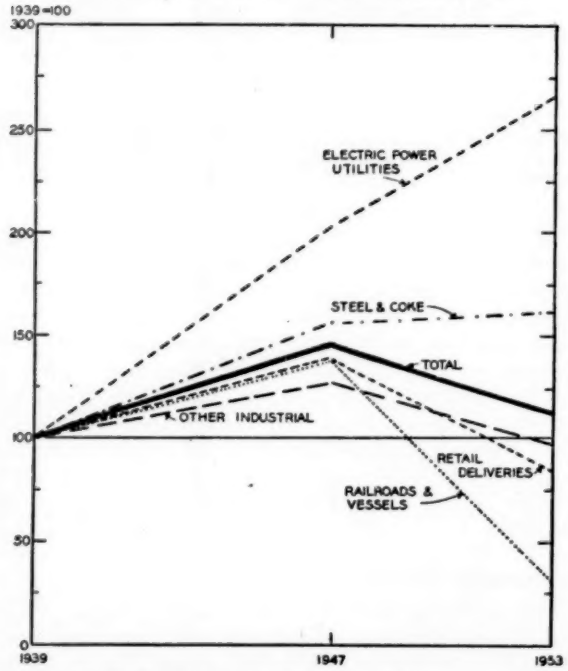
	August 1954	*July 1954*	*August 1953*
Civilian labor force	65,521	65,494	64,648
Employment	62,276	62,148	63,408
Agricultural	6,928	7,486	7,274
Nonagricultural	55,348	54,662	56,134
Unemployment	3,245	3,346	1,240

Continued Decline for Bituminous Coal

Bituminous coal has lost considerable ground to competing fuels in the postwar period. Between 1947 and 1953 the Federal Reserve Board's mineral fuels production index moved up 14 percent. Production of fuel oil increased nearly 30 percent and sales of natural gas more than doubled. Consumption of bituminous coal, however, dropped 23 percent during this period.

The effect of shifts to competing fuels on demand for bituminous coal is illustrated by the accompanying chart. Demand for coal by railroads has declined most sharply, as accelerated investment in Diesels after World War II led to the virtual extinction of steam locomotives on many roads. Retail deliveries are also off sharply as a result of the conversion of numerous coal furnaces to oil or gas. The bulk of the new homes built since the war have been equipped with gas or oil burners. Consumption of coal by the iron and steel industry was only slightly higher in 1953 than in 1947, whereas steel production advanced 31 percent over this period, indicating in part use of higher grades of iron ore and coal and in part increased use of gas in open-hearth furnaces.

BITUMINOUS COAL CONSUMPTION



Source: U. S. Department of the Interior.

Electric power utilities represent the only major consuming group in which coal use has kept relative pace with expansion of the consumers' output. For this reason and because of the losses in other markets, the electric utilities are rapidly becoming the coal industry's best customers. In 1939 coal consumption by utilities amounted to only 11 percent of total bituminous coal consumption. In 1953 electric power utilities used more than a fourth of the total consumed.

Foreign Security Holdings

Foreign holdings of common and preferred stocks of United States corporations totaled $3.7 billion at the end of 1953, about $650 million above 1946. The increase in the dollar value of foreign holdings occurred as a result of the general rise in American stock prices and despite net sales of United States securities during this period made to secure dollar funds for reconstruction.

At the end of 1953 the largest holdings of United States securities were registered for Switzerland with $900 million and the United Kingdom with about $750 million. However, many of these securities were probably owned by residents of other countries using Swiss and United Kingdom financial services.

State Income Payments

Total income payments to individuals rose by almost 6 percent in 1953 to $271 billion. On a per capita basis, income payments increased 4 percent to $1,709. Per capita income payments were up most in Indiana (10 percent) and South Dakota (11 percent). The largest declines occurred in Idaho and Kansas, both down 5 percent. Incomes per head were highest in Connecticut at $2,194 and lowest in Mississippi at $834.

Nationally, income expanded in all major sectors of the economy except agricultural. Farm income declined in all but five states. For the country as a whole, agricultural income was 12 percent lower than in 1952 whereas nonfarm income advanced 7 percent. Manufacturing payrolls were up 11 percent, trade and service income increased 6 percent, and construction payrolls were 4 percent higher than in 1952.

A Slight Case of Mergers

(Continued from page 2)

ences to one of the substitutes. If, however, the product is a more or less indispensable one, a merger leading to a monopoly position is not likely to be in the best interests of the general public.

By the same token, mergers between two strong firms, though generally viewed with suspicion, are not necessarily undesirable. Such is the case, for example, when a merger of two relatively small firms permits them to undertake technological improvements only feasible for the larger firms in the industry.

All this is not to imply that every merger that has taken place this year is socially desirable. Rather it is to point out that to condemn or praise mergers indiscriminately is poor policy, and that the current rash of mergers does not necessarily indicate growing monopolistic tendencies in the economy. Past experience shows that in some industries mergers have contributed to the growth of monopoly and in others have tended to do the very opposite. Careful study of each case is the only means of determining whether a particular merger is likely to do more harm than good. RF

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

New Oil Brake

A new braking device to control the downhill speed of heavy-duty, off-highway trucks has been developed by the Allison Division of General Motors Corporation, Indianapolis, Indiana. Known as the Torqmatic, the new mechanism is like a fluid coupling rather than an ordinary friction brake. When the operator opens a control valve, oil enters the mechanism and the paddles of a rotor churn the oil, placing a drag on the converter-transmission drive shaft. That makes it harder for the wheels to turn and the vehicle is slowed. The oil also absorbs any heat generated by the braking action.

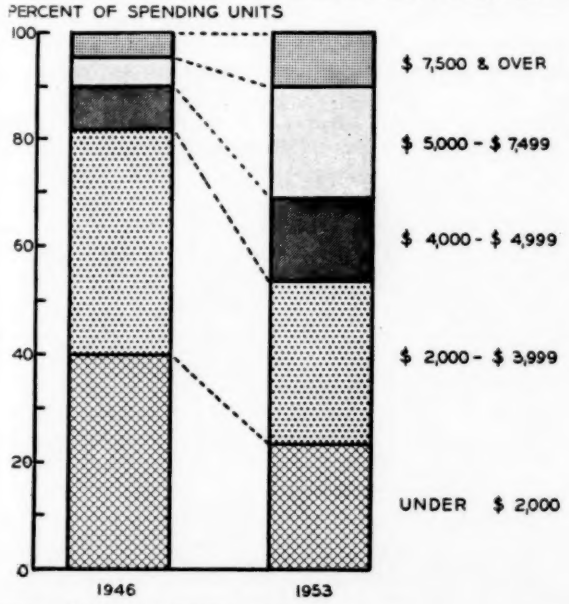
The amount of oil admitted to the brake is in proportion to the braking needed. Thus the operator has the truck under full control at all times, using the conventional friction brakes only to come to a complete stop. The unit is now in commercial production and can be installed on trucks already equipped with Allison's Torqmatic drives.

Consumer Income in 1953

The before-tax income position of consumers improved slightly in 1953, according to the Federal Reserve Board's 1954 Survey of Consumer Finances. With money incomes up somewhat and prices relatively steady, real income increased. More than two-fifths of all spending units reported gains over 1952, whereas approximately one-fifth reported lower incomes. By occupations the advances occurred mainly among professional and semiprofessional, clerical and sales, and managerial workers.

As shown by the accompanying chart, there has been a pronounced upward shift in incomes since 1946. In that year, 40 percent of consumer spending units had incomes of less than $2,000 and 4 percent had incomes of $7,500 or more. In 1953 these percentages were 23 and 10 respectively. The median income increased from $2,300 in 1946 to $3,780 in 1953.

DISTRIBUTION OF CONSUMER INCOME



Source: Federal Reserve Board.

Ownership of liquid assets (U. S. government bonds, checking and savings accounts, postal savings, and shares in savings and loan associations and credit unions) also rose last year. The proportion of total spending units holding such assets rose from 71 percent in 1952 to 74 percent last year, a point only slightly below the high of 76 percent at the end of World War II. Increases appear to have been concentrated in the $200 to $999 range. Very small holdings and large holdings showed no gains.

Electronic and Photographic Printer

A completely new method of printing which combines the principles of photography with electronics has been developed by the Standard Register Company, Dayton, Ohio. Named the "Photronic Reproducer," the new product prints instantaneously without physical contact with a copy paper which needs no special coating or treatment either before or after the reproduction.

The new printer consists of two chambers separated by a plate of optical glass which has a special coating on one side. An image is projected into the glass on the uncoated side and marginally punched paper is passed in front of the coated side of the plate. In the chamber on the other side of the copy paper is a fine mist and an electrostatic grid to furnish a high voltage charge. The mist, which is a dye, is propelled by electrostatic force to the surface of the paper in the form of the image projected from the back. The coating on the glass, functioning as a photoelectric cell, converts light energy into electrical energy and causes the dye to be deposited on the paper in proportion to the amount of light projected from the back.

Indicator Fuse

A fuse which lights up when it blows out and which can be used six times without replacement is being produced by Sightmaster Corporation, New Rochelle, New York. Since the bad fuse glows, there is no fumbling in the dark to find it. Also, the new product needs only to be twisted in its socket to the next of six positions to become as good as new, thus eliminating the possibility of getting a shock while replacing the fuse. Retailing for 79 cents, the new item is being made with ratings of 15, 20, 25, and 30 amperes.

Advertising Aid for the Small Retailer

A workable advertising program for the small retail businessman who is responsible for his own advertising has recently been published by the Business Management Service of the University of Illinois as Bulletin Number 851. Entitled *Newspaper Advertising for the Small Retailer,* by Isabelle M. Zimmerly, the handbook reviews the objectives of advertising and presents a six-point plan of achievement. The author offers suggestions on how to set up a sensible advertising budget, choose and use varied media wisely, make the advertising program consistent, emphasize fast-moving merchandise and store services, get simplicity in copy and layout, and coordinate sales effort. The booklet also contains 10 illustrations of retail newspaper advertisements and a list of suggested readings. It is available from the Business Management Service, University of Illinois, Urbana, Illinois, for 50 cents.

TRENDS IN LIFE INSURANCE

EMERSON CAMMACK, Instructor in Economics

Marine insurance literally came to America with the first settlers in New England, and fire insurance furnished by British underwriters was a sizable business in the colonies by the beginning of the eighteenth century. In contrast, the life insurance business in this country was a relative late-comer. Benjamin Franklin commented that it was "a strange anomaly that men should be careful to insure their houses, their ships, their merchandise, and yet neglect to insure their lives, surely the most important of all to their families, and more subject to loss." Yet until the nineteenth century was well under way, sales of life insurance consisted for the most part of the issuance of short-term policies to those about to undertake a voyage or other perilous venture.

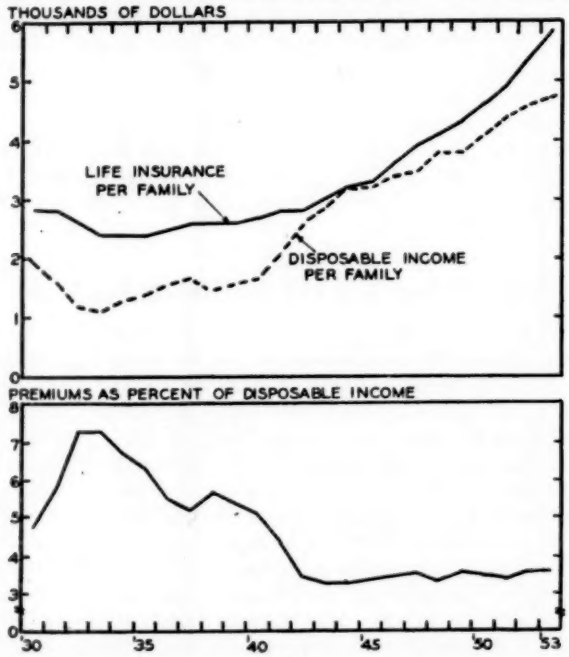
The present state of development of life insurance would amaze — and delight — the thrifty Franklin. Today life insurance is big business. Total assets of United States life insurance companies exceed $78 billion, and the Metropolitan Life Insurance Company with over $12 billion has become the world's largest corporation in terms of assets.

Recent Growth

The past fifteen years have witnessed one of the greatest periods of growth of life insurance in the industry's history. As is shown by Chart 1, life insurance protection has increased steadily beyond the amount of disposable income, but paradoxically, the cost of this insurance as a percentage of disposable income has not increased materially. In the past ten years total premium payments have increased 98 percent whereas the aggregate face amount of insurance has increased more than 120 percent. The explanation is the increasing sale of the more economical group life insurance and a greater use of the cheaper — but temporary — term insurance.

In recent years, group insurance, which is issued without medical examination on a group of persons under a master policy, has been the most rapidly increasing form of life insurance. From 1946 to 1953 sales of group insurance more than tripled, while sales of ordinary life increased about 67 percent, and industrial life (insurance sold in amounts of less than $500 and premiums paid weekly or monthly) increased only 50 percent.

LIFE INSURANCE AND DISPOSABLE INCOME



Sources: Institute of Life Insurance, *Spectator Year Book*, and U. S. Department of Commerce.

Who Owns Life Insurance?

In 1953, nearly four out of every five families in the United States owned some life insurance. Insurance holdings, as would be expected, rise with income level. Only 68 percent of families whose incomes were between $1,000 and $2,000 a year held insurance, whereas 92 percent of families earning over $7,500 per year held life insurance. The latter also spent more money on insurance per family. The average premium payments made by the two groups were $75 and $440, respectively.

Life insurance holdings vary also among families in other respects. Holdings of life insurance were greater in cities than in rural areas. Eighty-four percent of families in metropolitan areas owned life insurance, but only 66 percent of families living in the country were insured.

As would be expected, the extent of family dependency has an effect on the holding of life insurance. About 90 percent of families with two dependent children held life insurance, as compared with 75 percent of families with no children, 83 percent of families with three children, and 71 percent of families with four or more children. The rather surprising tendency for life insurance holdings to decrease in families with three or more children may be explained by the pressure of other family expenses as the number of children increases beyond two.

In 1952, the last year for which figures are available, life insurance owning families in the United States spent an average of $160 on premiums, or about 4 percent of their income after taxes. Twenty-seven percent spent 5 percent or more of their disposable income for life insurance, and 7 percent put 10 percent or more of income into life insurance premiums.

The great bulk of insurance is on the life of a man — the breadwinner in the typical family situation. This is not surprising since a basic principle of insurance buying — applicable to fire, marine, and casualty insurance as well as to life insurance — is to insure only against that which can cause loss to the insured. In recent years, however, there has been an increasing tendency for insurance on lives of children to increase at a faster rate than insurance on adults. From an economic point of view, this is undesirable because it provides no additional security. Except in the rare instance of a Shirley Temple or a Jimmy Boyd, children under 15 are not breadwinners. In objective economic terms, their parents would be money ahead should the child die — and the earlier the death occurs, the greater the monetary savings. There is no need to insure against contingencies which, if they should occur, result in monetary savings rather than expenses. That premium money could be more wisely spent to buy increased protection on the head of the household.

Investments of Life Insurance Companies

The income of all life insurance companies in 1953 was over $14 billion. Of this total, premiums represented $10.8 billion and investment and other income accounted for $3.4 billion. The investment of new funds, together with the reinvestment of maturing investments, gives insurance companies the problem of finding suitable investment outlets for over a billion dollars every month. With such large sums to invest, life insurance companies have become a major force in the investment market. Only banks rival them as investing institutions.

The basic principle of life insurance company investment management holds that since the companies' obligations, the policies, are long-term obligations fixed in terms of dollars, investments should be concentrated in long-term, fixed-dollar investments. Within this frame of reference, the life insurance company faces the same problem as the bank manager — that of securing as large a yield as possible consistent with a high degree of safety.

Three noticeable trends have been exhibited by life insurance company investments in recent years (Chart 2): the great decrease in holdings of United States government bonds, the great increase in holdings of securities of business and industry, and the slowly increasing holdings of mortgages. During the war, with other sources of investment dried up, insurance companies had little choice but to buy government bonds. In 1945, almost half of life insurance assets were so invested. In that same year, investment in mortgages and securities of business and industry reached its lowest amount with only 14.8 percent and 24.7 percent of assets in those respective forms.

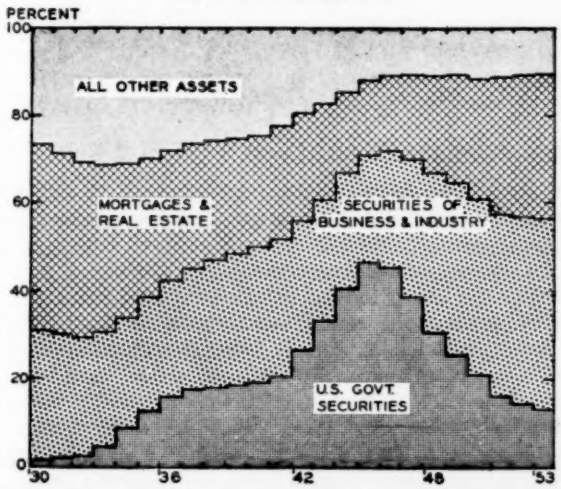
Since 1945, however, these trends have been reversed. Almost $5 billion was invested by life insurance companies last year in securities of business and industry. About 93 percent of these holdings was in bonds, and of the small investment in stocks, the greater part was in preferred stocks. Life insurance companies have been criticized for their refusal to invest in high-grade common stocks, and it is pointed out that in 1910 common stock in the auto industry would have been a better investment than bonds of the buggy industry. However, the principle of fixed-dollar investment is so ingrained in life investment managers that these arguments have made little headway, despite the success of those foreign life insurance companies which have invested more heavily in common stocks.

Real estate is one of the most publicized types of insurance company investment. This accounted, however, for only 2.6 percent of assets in 1953, and was not substantially greater, percentagewise, than in past years. Perhaps the most widely known of these investments is in rental housing projects, but these represent little more than one-fifth of real estate holdings. A much greater amount is invested in commercial real estate. In recent years, many business corporations have sold factories, office buildings, and other real property to insurance companies. The business firm then rents its former property from the life insurance company. In this manner the firm's capital is released for use elsewhere, the life insurance company finds an outlet for some of its investment funds, and everyone benefits — with the possible exception of the Bureau of Internal Revenue.

The presence of life insurance companies in the capital market has proved a boon to business and industry. Not only is there a ready and even a willing source of funds, but most investments made by life insurance companies in these securities can be made on a direct placement basis. The securities are sold directly by the business firm to the insurance company. The requirement that new securities be registered with the Securities and Exchange Commission does not apply in this case. Also, no underwriting fee need be paid an investment bank, so the net cost to the business firm is less than for capital acquired through regular market channels.

In shifting from a portfolio largely invested in government bonds to one in which business securities predominate, life insurance companies are increasing the average yield on their investments, in exchange for a greater risk. These investments are more vulnerable to economic fluctuations today than they were ten years ago. This is a calculated risk, but the past record of life insurance companies as investment managers gives one confidence that the policyholders' funds are in capable hands. The average rate of earnings on the invested funds last year rose to 3.36 percent from a low of 2.88 percent in 1947.

DISTRIBUTION OF ASSETS OF U. S. LIFE COMPANIES



Sources: *Spectator Year Book* and Institute of Life Insurance.

Outlook

The outlook for life insurance in the foreseeable future is bright. There is nothing to indicate that the persistent upward growth of sales will be checked. With population increases, the volume of insurance sales will grow, and there is every indication that per capita holdings of life insurance will continue to rise. With the average family's holdings of life insurance only 25 percent greater than one year's disposable income, it cannot be claimed that the family's needs for life insurance have been fully satisfied.

The spectacular increase in group insurance aided by demands of organized labor (its volume has doubled since 1948) is likely to continue. The spreading use of group insurance as exemplified by the policy of banks to insure borrowers, will add impetus to this growth.

In their investment portfolios, additional declines in life insurance company holdings of government bonds are likely. Further increases in holdings of securities of business and industry and of mortgages may be expected. With the expected rise in the number of family units in the late 1950's, holdings of mortgages may be expected to increase faster than holdings of securities. Such changes might well lead to still higher earnings rates in the future accompanied by possible reductions in costs of life insurance.

LOCAL ILLINOIS DEVELOPMENTS

Business activity in Illinois was generally lower in July, with seasonal factors playing a large part in many of the declines. Steel output in the Chicago District was off sharply to 68.0 percent of capacity, the lowest point since the steel strike of mid-1952. The operating rate for the first six months of the year was 77.1 percent of capacity. Electric power production was off somewhat less, 2.6 percent.

Retail activity also declined — department store sales dropped 1.9 percent from June to July. Construction contracts awarded and petroleum production were the only important indexes to show advances over the earlier month.

Weekly Earnings Up

The average weekly earnings of Illinois manufacturing workers rose in June for the second month after declining earlier in the year. The improvement was due to an increase in working hours, from 39.4 hours in April to 40.0 hours in June, rather than to any advance in hourly wages.

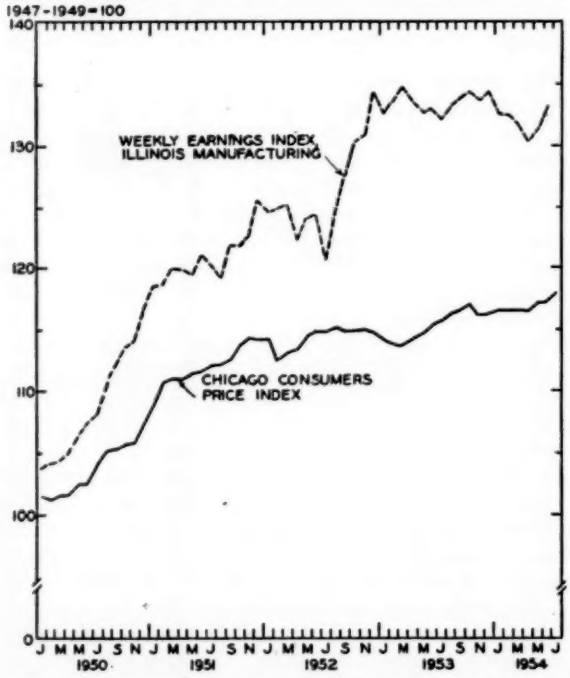
At $76.20, average weekly wages were below the 1953 peak of $77.04. Nevertheless, manufacturing workers were relatively better off than they were when the Korean War started. Since June, 1950, average weekly earnings have increased approximately 25 percent whereas the consumer price index for Chicago has risen 15 percent (see chart).

Crop Outlook for 1954

Heat and dry weather in July reduced substantially the estimated corn crop for this year, according to the Illinois Cooperative Crop Reporting Service. The new estimate, issued on August 1, was 20 percent below the July 1 expectations as a result of heavy damage to the crop in the southern half of the State. The expected 1954 yield, 400 million bushels, is also a fifth lower than the 1953 crop and about 10 percent less than the 10-year average. Anticipated per-acre yield was cut from 57 bushels to 45 bushels.

Soybean yields were also affected by the heat, but an increase in acreage is expected to offset the decline in yields. Earlier crops such as wheat, oats, and hay were affected less seriously.

EARNINGS AND PRICES IN ILLINOIS



Sources: Bureau of Labor Statistics and Illinois Department of Labor.

Construction Awards Up in July

Divergent movements characterized construction contract awards in Illinois during July. Total awards in the State rose 9 percent from June to $127.3 million as nonresidential building increased 61 percent and contracts let for public works and utilities advanced 15 percent. Residential awards were off 17 percent.

On a year-to-year basis, awards declined 18 percent with the value of contracts for nonresidential construction dropping nearly one-half. The chief factor in this decline was a substantial cut in awards for commercial building and a smaller but still sizable decrease in contracts for the construction of manufacturing facilities. In contrast residential awards were up one-third and public works and utilities contracts by nearly half.

For the first seven months of 1954, construction contract awards amounted to $768.6 million, 8 percent above the corresponding period of 1953. The increase was due almost entirely to the continued strength of residential construction, awards for which were up 31 percent from last year. Nonresidential awards rose only 3 percent, and public works and utilities building contracts dropped 27 percent.

Income Payments in 1953

Aggregate income payments to individuals in Illinois in 1953 rose 6 percent from 1952 to $18.8 billion. Totals were higher only in New York, California, and Pennsylvania. Income advanced in most categories with increases ranging from 2 percent for government income payments to 11 percent for manufacturing payrolls. Two other major sources of income dropped substantially — mining payrolls were off 3 percent and agricultural income dropped 13 percent.

Per capita income amounted to $2,088, 5 percent above 1952 and 22 percent above the national average. Among the chief types of income — wages and salaries, proprietors' income, property income, and other — increases ranged from 4.7 percent (property income) to 7.3 percent (wages and salaries). Only proprietors' income, off 1.5 percent, declined.

Unemployment Claims Drop

Total claims for unemployment compensation declined throughout the month of August, according to the Bureau of Employment Security. In the five weeks ended August 28 the number of insured unemployed dropped 13 percent to 131,630. A sharp fall in initial claims filed also indicated improvement in the employment situation. Declines were attributed to fewer layoffs in fabricated metals and electrical equipment caused by lack of orders, a decline in vacation layoffs, and seasonal hiring in food processing. Gains were spotty, however: Chicago, Aurora, and Joliet reported sizable cuts in insured unemployment from July to August, but further small increases occurred in Peoria, Rockford, and the Davenport-Rock Island-Moline area.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

July, 1954

	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	**$25,390**[a]	**921,134**[a]	**$545,421**[a]		**$12,524**[a]	**$11,689**[a]
Percentage Change from June, 1954	n.a.	*+2.4*	*+3.5*	*−21*	*−5.3*	*−11.8*
Percentage Change from July, 1953	*−7.7*	*−1.0*	*−4.4*	*0*	*−1.8*	*+6.0*
NORTHERN ILLINOIS						
Chicago	**$19,137**	**707,744**	**$401,500**		**$11,446**	**$10,170**
Percentage Change from June, 1954	*+4.0*	*+3.0*	*+4.2*	*−21*	*−5.2*	*−12.5*
Percentage Change from July, 1953	*−6.8*	*−2.6*	*−4.1*	*0*	*−1.7*	*+5.8*
Aurora	**$ 516**	n.a.	**$ 7,841**		**$ 48**	**$ 103**
Percentage Change from June, 1954	*+20.6*		*+8.6*	*−27*	*−7.9*	*+10.1*
Percentage Change from July, 1953	*+105.6*		*−2.8*	*−2*	*+2.2*	*+26.4*
Elgin	**$ 453**	n.a.	**$ 5,639**		**$ 32**	**$ 77**
Percentage Change from June, 1954	*+243.2*		*+1.6*	*−25*	*−2.4*	*−16.8*
Percentage Change from July, 1953	*+39.0*		*−1.4*	*+4*	*+17.7*	*+12.8*
Joliet	**$ 335**	n.a.	**$10,977**		**$ 64**	**$ 87**
Percentage Change from June, 1954	*−10.9*		*+1.0*	*−22*	*−0.2*	*−0.3*
Percentage Change from July, 1953	*−52.5*		*−14.0*	*−1*	*+0.8*	*+39.5*
Kankakee	**$ 139**	n.a.	**$ 5,340**		n.a.	**$ 32**
Percentage Change from June, 1954	*+17.8*		*+0.7*	n.a.		*0.0*
Percentage Change from July, 1953	*−27.6*		*−0.9*			*+12.0*
Rock Island-Moline	n.a.	**19,687**	**$ 9,809**		**$ 83**[b]	**$ 132**
Percentage Change from June, 1954		*−1.6*	*−0.7*	n.a.	*−4.3*	*−9.1*
Percentage Change from July, 1953		*+2.1*	*−7.0*		*−1.3*	*+8.5*
Rockford	**$ 936**	**26,097**	**$16,087**		**$ 131**	**$ 150**
Percentage Change from June, 1954	*−0.7*	*−9.9*	*+0.7*	*−27*[c]	*−8.8*	*−12.7*
Percentage Change from July, 1953	*−40.0*	*−6.1*	*−6.7*	*−7*[c]	*−1.5*	*−0.1*
CENTRAL ILLINOIS						
Bloomington	**$ 277**	**6,723**	**$ 5,487**		**$ 61**	**$ 78**
Percentage Change from June, 1954	*−9.2*	*+3.5*	*+2.6*	n.a.	*+1.7*	*−19.0*
Percentage Change from July, 1953	*+39.2*	*+7.6*	*−18.3*		*+2.4*	*+17.0*
Champaign-Urbana	**$ 217**	**9,309**	**$ 7,360**		**$ 54**	**$ 68**
Percentage Change from June, 1954	*−32.2*	*+3.5*	*+2.2*	n.a.	*+1.4*	*−13.2*
Percentage Change from July, 1953	*−78.7*	*+24.6*	*−0.2*		*+1.7*	*−8.5*
Danville	**$ 188**	**9,038**	**$ 5,772**		**$ 47**	**$ 54**
Percentage Change from June, 1954	*−2.6*	*−1.8*	*+0.7*	*−16*	*+4.9*	*−3.1*
Percentage Change from July, 1953	*−15.7*	*+11.1*	*−7.2*	*−4*	*+7.6*	*−1.4*
Decatur	**$1,261**	**24,398**	**$11,178**		**$ 86**	**$ 99**
Percentage Change from June, 1954	n.a.	*+5.0*	*+2.6*	*−14*[c]	*−10.6*	*−9.9*
Percentage Change from July, 1953	*+21.0*	*+9.7*	*+7.1*	*−3*[c]	*−7.1*	*+2.6*
Galesburg	**$ 218**	**7,222**	**$ 4,269**		n.a.	**$ 33**
Percentage Change from June, 1954	*+61.5*	*+4.1*	*+0.8*	n.a.		*−2.4*
Percentage Change from July, 1953	*+73.0*	*+18.2*	*−1.1*			*−6.8*
Peoria	**$ 337**	**42,275**[c]	**$17,181**		**$ 176**	**$ 211**
Percentage Change from June, 1954	*−27.8*	*−4.8*	*+4.4*	*−24*[c]	*−10.5*	*−5.9*
Percentage Change from July, 1953	*+10.5*	*+2.8*	*−5.0*	*−4*[c]	*−14.3*	*+8.8*
Quincy	**$ 290**	**8,037**	**$ 4,863**		**$ 36**	**$ 59**
Percentage Change from June, 1954	*+25.0*	*+4.3*	*+0.3*	*−18*	*−8.0*	*+2.0*
Percentage Change from July, 1953	*+43.6*	*+21.9*	*−4.3*	*+3*	*+5.6*	*−8.7*
Springfield	**$ 310**	**29,462**[c]	**$13,199**		**$ 97**	**$ 194**
Percentage Change from June, 1954	*+5.1*	*+6.3*	*+1.0*	n.a.	*−5.5*	*−7.7*
Percentage Change from July, 1953	*+0.6*	*+10.1*	*−7.6*		*−1.9*	*−0.7*
SOUTHERN ILLINOIS						
East St. Louis	**$ 255**	**12,880**	**$ 9,355**		**$ 128**	**$ 79**
Percentage Change from June, 1954	*+51.8*	*+8.4*	*−2.6*	n.a.	*−5.2*	*+27.8*
Percentage Change from July, 1953	*−29.6*	*−7.7*	*−4.1*		*+0.2*	*+30.7*
Alton	**$ 219**	**11,941**	**$ 5,002**		**$ 36**	**$ 29**
Percentage Change from June, 1954	*+44.1*	*+6.9*	*+2.4*	n.a.	*−10.6*	*−2.3*
Percentage Change from July, 1953	*+16.5*	*−2.2*	*−1.9*		*−1.5*	*+4.4*
Belleville	**$ 202**	**6,321**	**$ 4,563**		n.a.	**$ 34**
Percentage Change from June, 1954	*−78.5*	*+6.9*	*+1.3*	n.a.		*−17.4*
Percentage Change from July, 1953	*+676.9*	*+4.7*	*−1.9*			*−3.3*

[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for June, 1954, the most recent available. Comparisons relate to May, 1954, and June, 1953. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports.

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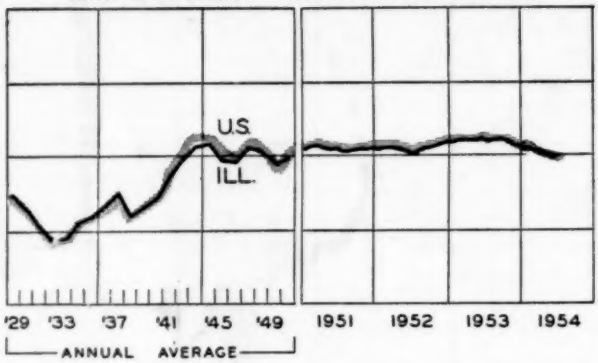
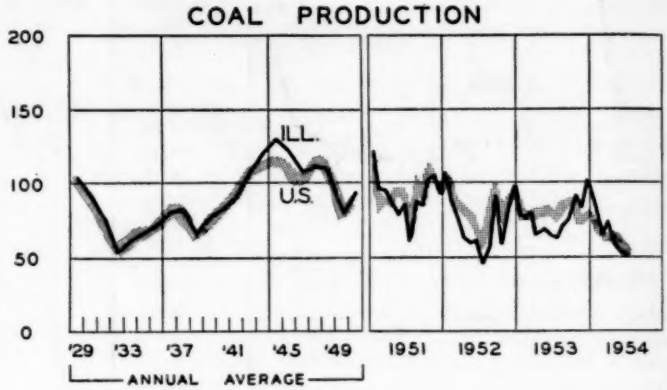
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

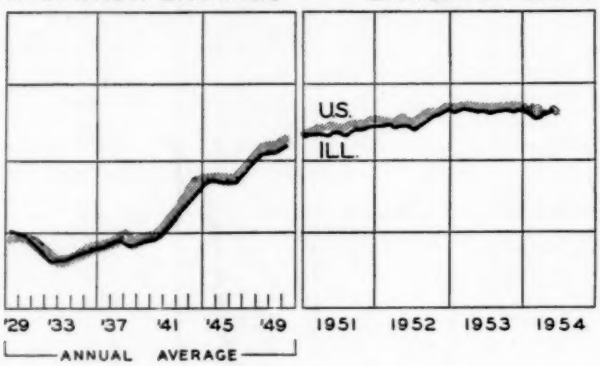
EMPLOYMENT - MANUFACTURING



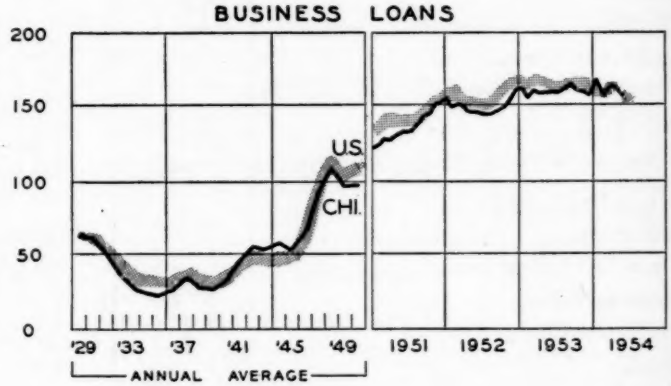
COAL PRODUCTION



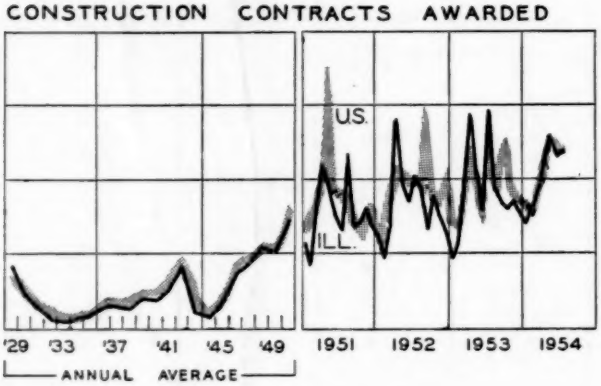
AVG. WKLY. EARNINGS — MANUFACTURING



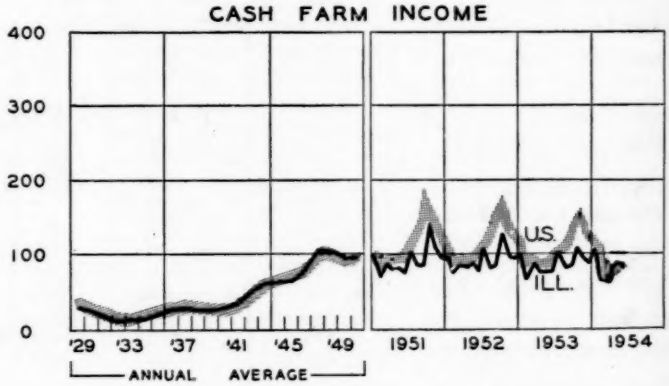
BUSINESS LOANS



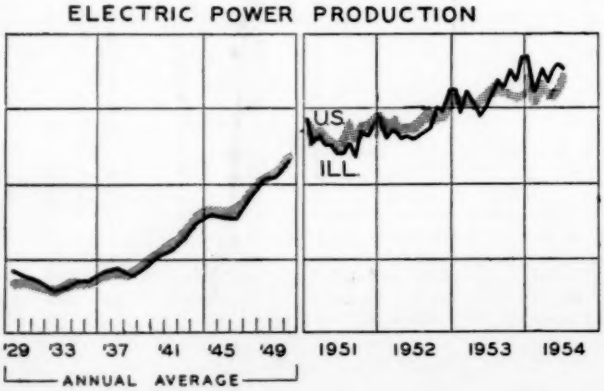
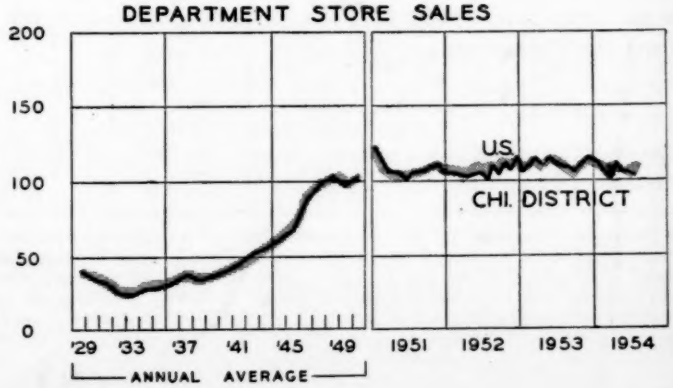
CONSTRUCTION CONTRACTS AWARDED



CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES